

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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India

Sugar Annual

Sugar - Annual 2011

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Report Highlights:

India's marketing year (MY) 2011/12 (October-September) sugar production is forecast to increase by 10 percent to 28.3 million metric tons (raw value basis) due to an expected increase in sugarcane production. Improved domestic supplies and continued strong demand from bulk consumers in India is likely to push up sugar consumption to 26.5 million tons and further limit imports to 500,000 tons.

Note: All sugar data in the report are raw value basis unless otherwise mentioned.

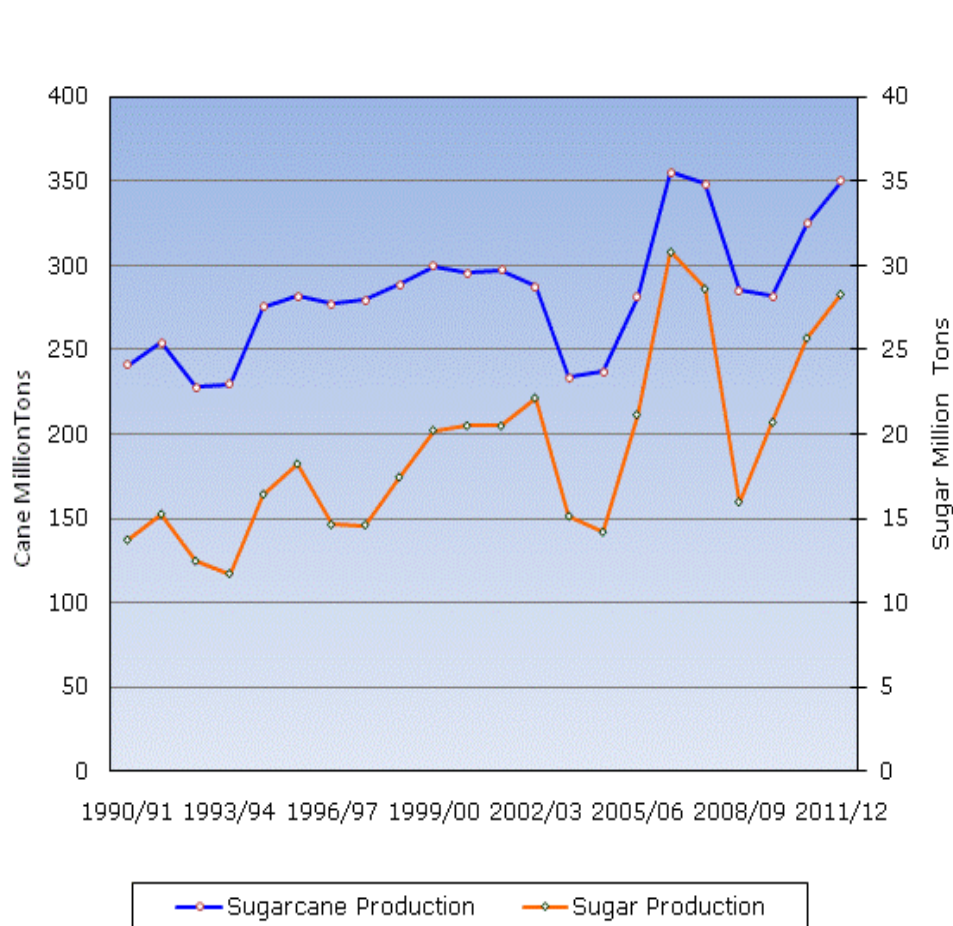
Commodities:

Sugar, Centrifugal

Production:

After two consecutive years of decline in sugar production (MY2008/09 and MY2009/10), production has started to resurge in MY 2010/11 and is likely to gain strongly in 2011/12. Sugarcane has a production cycle of 2-3 years, i.e. cane planted in a marketing year is harvested in the next marketing year, followed by one or two additional retune crops in the next one to two years. About 60-70 percent of farmers take one retune crop and the other 30-40 percent take two retune crops. The cane yield of a retune crop is normally lower than that of new planted cane crop.

Figure 1: India's Sugarcane and Sugar Production



Source: Sugarcane data is provided by The Ministry of Agriculture, Department of Economics and Statistics, Government of India. Sugar production data is provided by the Indian Sugar Mills Association

India's total centrifugal sugar production in MY 2011/12 is forecast at 28.3 million metric tons (this includes 466,000 tons of Khandasari sugar, which is a low-recovery centrifugal sugar prepared by an open-pan evaporation method) due to an expected

increase in sugarcane planting and yields. The 2011/12 gur (a crude non-centrifugal sugar in lump) production forecast is revised higher to 5.6 million tons compared to 4.4 million tons last year due to expected strong prices.

Modest cane price realization, despite weak sugar prices during the 2010/11 season will support higher cane acreage in 2011/12, which is forecast at 5.1 million hectares, up 6 percent over the previous year. Assuming a normal monsoon and favorable weather conditions, yields are expected to improve over last year. As a result, sugarcane production is forecast higher at 350 million tons in 2011/12. Increasing costs of 'labor and irrigation intensive' sugarcane cultivation, better remuneration from competing crops such as paddy and wheat may keep cane prices firm during the forthcoming season. However, softening sugar prices may temper mill's profitability, resulting in delay of payment to farmers.

According to the third advance estimate from the Ministry of Agriculture, Government of India (GOI), 2010/11 sugarcane production is revised up by 3.8 million tons to 340.5 million tons. Consequently, centrifugal sugar production is also revised up to 26.7 million tons, up 540,000 tons over its previous estimate. Better sugar recovery rates due to well distributed monsoon rains and favorable weather conditions in major sugarcane producing regions; particularly in central and southern India would support higher centrifugal sugar production. Low sugar prices and the expectation of a large sugarcane crop resulted in mills offering lower cane prices to farmers as compared to last year. The recent weakening of gur prices vis-à-vis sugar (Fig-2) and relatively modest cane prices paid by sugar mills limited the diversion of sugarcane for the production of gur during peak crushing season.

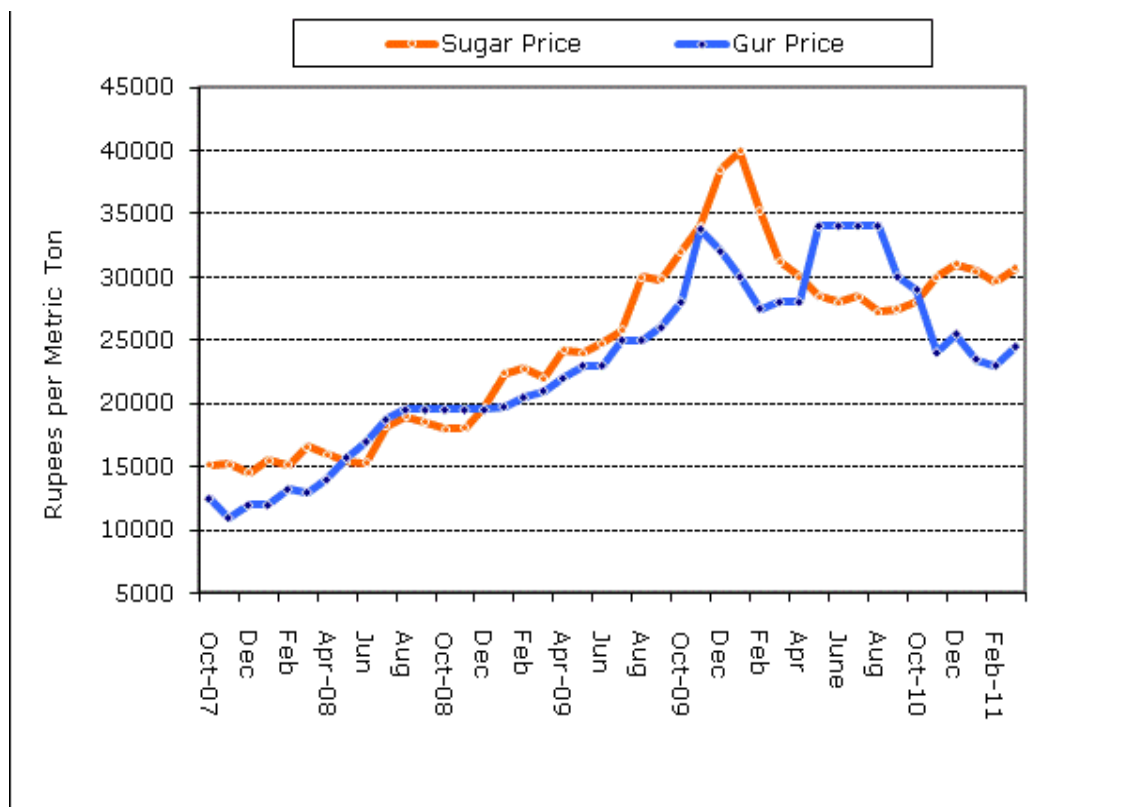
Mill sugar production as of February, 2011, for marketing year 2010/11, is estimated at 16.3 million tons (crystal weight basis) compared to 13.7 million tons for the corresponding period of 2009/10.

Consumption: Improved domestic supplies and strong demand from bulk consumers in India are likely to push up domestic sugar consumption to 26.5 million tons in 2011/12. Strong growth in the Indian economy (expected at 8.5 percent in fiscal 2010/11) and a rapidly growing population (about 1.8 percent per annum) would support growth in consumption. Bulk consumers such as soft drink manufacturers, bakeries, confectionary, hotel and restaurant consumers account for 60 percent of mill sugar demand. Most bulk consumers use only cane sugar as India does not produce any significant quantity of high fructose corn syrup (HFCS). A high import duty (30 percent basic duty) precludes imports of HFCS for commercial use. Local sweet shops consume most of the Khandsari sugar. Gur is mostly consumed in rural areas for household consumption and animal feed use.

Market Prices

After peaking in January 2010, domestic sugar prices have softened on improved expectations of increased domestic production during 2010/11 and forecasted higher production in 2011/12. Currently, sugar prices in the major domestic wholesale market in India range from \$690 to \$700 per ton. Sugar prices in the upcoming 2011/12 season are expected to soften on prospects of improved domestic supplies, although international price movements can impact domestic prices. Gur prices have been under pressure (Table 6) since the beginning of 2010/11 and their prices in 2011/12 will be guided by sugar price movements.

Fig 2: Sugar and Gur Prices in Delhi Market



Source: Data is provided by the Indian Sugar Mills Association.

Trade:

Due to softening sugar prices in international markets, increasing domestic costs of production, and delays in sugar exports, Post has marginally revised import forecasts up during 2010/11 by 200,000 tons to 1.2 million tons. However, with expected surplus sugar production in 2010/11, the GOI's approval of 500,000 tons of sugar for commercial export under an Open General License (OGL) (which are over and above the export obligation under the Advance License Scheme (ALS) – see GAIN report 1033), and with the possibility of further exports in coming months, India is likely to export around 800,000 tons total of sugar in 2010/11 with the possibility of an upward bias. Given concerns over food inflation, the GOI may divert excess stocks as a buffer to meet any contingency. Sugar import estimates during 2009/10 have been revised up by 370,000 tons to 4.5 million tons, whereas sugar exports during same period have been revised up by 224,000 tons to 229,000 tons to reflect current trade estimates.

Trade Policy

In order to augment domestic supplies due to concerns over rising food price inflation, the GOI took measures to relax import restrictions. The GOI had exempted imported sugar, both raw sugar and white sugar, from the levy sugar obligation and the market quota release system, applicable to domestic sugar. Through a series of notifications the GOI extended duty free imports of raw sugar and white sugar through December 31, 2010, which was further extended until March 31, 2011.

Since April 1, 2011, the 60 percent import duty structure has been reinstated. Prices appear likely to remain firm in the coming months due to higher demand from large consumers (ice cream and soft drink manufacturers) as well as the GOI decision to allow exports of sugar (no official notification yet) while simultaneously increasing the stockholding limit for traders and wholesale dealers.

After re-assessing the production outlook for 2010/11, the government allowed sugar mills to fulfill their export obligation

under the ALS. Per trade sources, approximately 906,000 tons of sugar exported during first quarter of 2010/11 was made under ALS. (For more information please refer the trade section of the Indian Sugar Annual, GAIN Report IN1033).

Under the World Trade Organization Uruguay Round Agreement, India has the right to export a specified quantity of raw sugar to the United States under a tariff rate quota (TRQ). In fiscal year 2011, India was allocated a TRQ of 8,424 metric tons of raw sugar to the U.S. for delivery by 09/30/2011. On April 11, 2011, the United States announced an additional TRQ of 3,980 metric tons of raw sugar imports from India for fiscal year 2011 (Link: [Additional sugar TRQ announcement](#)). As of April 2011, the Government of India has only confirmed its intention to export 8,424 metric tons of raw sugar to the United States.

Stocks:

Total 2011/12 ending stocks are forecast at 6.5 million tons marginally up over 6.4 million tons in 2010/11 ending stocks; both at par with normal stock levels (three-month consumption requirement).

Policy:

Sugarcane Production and Pricing Policy

The GOI supports research, development, training of farmers and transfer of new varieties and improved production technologies (seed, implements, pest management) to growers in its endeavor to raise cane yields and sugar recovery rates. The Indian Council of Agricultural Research (ICAR) conducts sugarcane research and development at the national level. State agricultural universities, regional research institutions, and state agricultural extension agencies support these efforts at the regional and state levels. The central and state governments also support sugarcane growers by ensuring financial services and input supplies at affordable prices. To increase the area of cultivation and production in the country, a centrally sponsored Sustainable Development Fund for Sugarcane Based Cropping Systems is being implemented in various sugarcane growing states.

The GOI establishes a minimum support price (MSP) for sugarcane on the basis of recommendations by the Commission for Agricultural Costs and Prices (CACP) and after consulting State Governments and associations of the sugar industry and cane growers. The year before last the GOI announced a new system of fair and remunerative prices (FRP) that would link cane prices with sugar price realization by the sugar mills. Several state governments further augment the MSP/FRP, typically by 20-25 percent, due to political compulsions rather than market pricing.

Sugar mills are required to pay the “state advised price (SAP)” to sugarcane farmers irrespective of the market price of sugar. Softening sugar prices coupled with the anticipation of a large cane crop discouraged the sugar mills to pay higher cane prices vis-à-vis last year. However, cane prices received by farmers were higher than the MSP/FRP in most of the growing states. Although the local industry has been advocating rationalization of cane pricing policy by linking it with domestic/world sugar prices, industry sources do not expect any downward revision of FRP in the coming years if the sugar prices decline due to political considerations.

Sugar Production and Marketing Policy

The GOI levies a fee of Rs. 240 (\$5.4) per ton of sugar produced by mills to fund a Sugarcane Development Fund (SDF), which is used to support research, extension, and technological improvement in the sugar sector. The SDF is also often used to support sugar buffer-stocks operations, provide a transport subsidy for sugar exports, and provide an interest subsidy on loans for the installation of power generation and ethanol production plants. In March 2008, the GOI enacted the Sugar Development Fund (Amendment) Bill, 2008 that enables the government to include the use of the funds for debt restructuring and soft loans to the sugar mills.

The GOI follows a policy of partial market control and dual pricing for sugar. The local sugar mills are required to supply 10 percent of their production to the government as ‘levy sugar’ at below-market prices, which the government distributes through the Public Distribution System (PDS) to its below-poverty line population at subsidized rates. Mills are allowed to sell the balance of their production as ‘free sugar’ at market prices. However, the sale of free-sale sugar and levy-sugar is administered by the government through periodic quotas, designed to maintain price stability in the market.

In order to ensure an adequate supply of sugar to the end consumers:

- Under the Essential Commodity Act, the government had imposed a stock holding limit (August 22, 2009) on bulk consumers (food and beverage industries who consume more than 1 metric ton per month). Initially, these consumers were asked to maintain stocks no greater than a 20 days requirement. This was further lowered to a 10 day requirement in February 2010 and was subsequently raised to a 15 day requirement with effect from May 21, 2010 through August 18, 2010. However, after assessing the domestic supply situation, on August 18, 2010 the government relaxed the stock holding limit for bulk consumers to 90 days (in force up to August 08, 2011) and also allowed mills to export white sugar (To fulfill their export obligation under ALS).
- In order to augment the sugar supply in retail markets and to tame food price inflation, the GOI raised the stockholding limit for traders and wholesale dealers to 500 tons from 200 metric tons and also extended the period of stock holding limit by six months to September 30, 2011. The stock holding limits were in force till March 31, 2011.
- In May 2001 the government allowed futures trading in sugar, and three national exchanges have been given permission to engage in sugar futures trading. However, in May 2009, the government suspended futures trading in sugar until September 2010. Due to improvements in domestic sugar supplies and the consequent softening of its retail prices, futures trading was resumed on December 27, 2010.
- The levy obligation has been removed in respect of all imported raw and refined/white sugar. White/refined sugar has also been allowed to be sold at the discretion of the importing organizations and sugar processed from imported raw sugar is subject to accelerated release.
- On April 17, 2010 the GOI allowed State Trading Enterprises to import white/refined sugar duty free with an initial cap of 1 million tons. Later on, the right to duty free import was extended to other Central/State government agencies and the private trade without any cap on quantity. This was allowed through March 31, 2011.
- The GOI has increased the monthly sugar release quota, especially from the second quarter of 2010/11 (see Table 8). The government also announced various steps to monitor sales of the quota by the mills and take penal action against defaulter mills who are not selling their quota allocation. The central government administers the sale of sugar through periodic quotas to maintain price stability in the market. The government decides the amount of sugar to be released by domestic sugar mills in the market for the period of three months. Further, the government allocates the three month sugar quota to individual sugar mills determining the quantities to be sold by each mill during the specified quota period.

Production, Supply and Demand Data Statistics:

Table 1: Commodity, Centrifugal Sugar (raw value basis), PSD

(Figures in '000 MT)

Sugar, Centrifugal India	2009/2010	2010/2011	2011/2012
	Market Year Begin: Oct	Market Year Begin: Oct	Market Year Begin: Oct

	2009		2010		2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Beginning Stocks	3,510	3,510	4,653	4,664		6,994
Beet Sugar Production	0	0	0	0		0
Cane Sugar Production	20,538	20,637	25,700	26,650		28,300
Total Sugar Production	20,538	20,637	25,700	26,650		28,300
Raw Imports	3,200	3,340	800	1,000		100
Refined Imp.(Raw Val)	910	907	200	200		0
Total Imports	4,110	4,247	1,000	1,200		100
Total Supply	28,158	28,394	31,353	32,514		35,394
Raw Exports	0	42	0	0		0
Refined Exp.(Raw Val)	5	188	20	20		1,800
Total Exports	5	230	20	20		1,800
Human Dom. Consumption	23,500	23,500	25,000	25,500		26,500
Other Disappearance	0	0	0	0		0
Total Use	23,500	23,500	25,000	25,500		26,500
Ending Stocks	4,653	4,664	6,333	6,994		7,094
Total Distribution	28,158	28,394	31,353	32,514		35,394
TS=TD		0		0		0

Note: Stocks include only milled sugar, as all *khandsari* sugar produced is consumed within the marketing year. Virtually no centrifugal sugar is utilized for alcohol, feed, or other non-human consumption.

Table 2: Commodity, Sugarcane, Centrifugal, PSD
(Area in '000 hectare and others in '000 MT)

Sugar Cane for Centrifugal India	2009/2010		2010/2011		2011/2012	
	Market Year Begin: Oct 2009		Market Year Begin: Oct 2010		Market Year Begin: Oct 2011	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	4,250	4,200	4,800	4,810		5,200
Area Harvested	4,250	4,200	4,800	4,810		5,200
Production	282,000	277,800	325,000	340,540		350,000
Total Supply	282,000	277,800	325,000	340,540		350,000
Utilization for Sugar	179,800	185,548	231,000	245,000		255,000
Utilizatn for Alcohol	102,200	92,252	94,000	95,540		95,000
Total Utilization	282,000	277,800	325,000	340,540		350,000
TS=TD		0		0		0

Note: Virtually no cane is utilized directly for alcohol production. 'Utilization for alcohol' in the PS&D includes cane used for gur, seed, feed and waste. 'Utilization for sugar' data include cane used to produce mill sugar and *khandsari* sugar.

Table 3: Sugarcane Area, Production, and Utilization

(Area in million hectares, Yield in metric tons per hectare, and Others in million metric tons)

Sugar Cane	AREA/1	YIELD/1	PRODN /1	SUGAR/2	KHANDSARI/3	GUR /3	SEED/3
	Mha	MT/ha	MMT	MMT	MMT	MMT	MMT
1985/86	2.86	59.99	171.68	68.98	10.48	71.62	20.60
1990/91	3.69	65.39	241.05	122.32	13.18	76.63	28.93
1995/96	4.15	68.02	282.09	174.76	10.00	67.27	30.06
2000/01	4.32	68.49	295.60	176.65	11.00	72.48	35.47
2001/02	4.41	67.38	297.21	180.32	10.50	70.73	35.67
2002/03	4.52	63.58	287.38	194.33	9.50	49.07	34.49
2003/04	3.94	59.39	233.86	132.51	10.00	61.35	30.00
2004/05	3.66	64.74	237.09	124.77	9.50	74.37	28.45
2005/06	4.20	66.93	281.17	188.672	8.500	50.259	33.741
2006/07	5.15	69.03	355.52	279.249	7.500	26.109	42.662
2007/08	5.06	68.81	348.19	249.906	7.000	49.501	41.783
2008/09	4.40	64.77	285.00	145.000	6.500	99.300	34.200
2009/10	4.20	66.14	277.80	185.548	6.500	52.416	33.336
2010/11	4.81	68.19	328.00	237.000	7.000	44.640	39.360
2011/12/3	5.20	67.31	350.00	255.000	7.500	45.500	42.000

Note: Figures for 2010/11 and 2011/12 are FAS estimates.

Source: /1: Directorate of Economic and Statistics, Ministry of Agriculture

/2: Indian Sugar Mills Association except 2010/11 and 2011/12

/3: FAS/New Delhi estimate

Table 4: Mill Sugar Production by State

(Figures in 100,000 tons crystal weight basis)

State	2008/09	2009/10	2010/11	2011/12
	Final	Revised	Revised	Forecast
Andhra Pradesh	5.9	5.2	7.0	8.0
Bihar	2.1	2.6	3.0	3.0
Gujarat	10.1	11.9	13.0	14.0
Haryana	2.3	2.5	3.0	5.0
Karnataka	16.5	25.6	33.0	34.0
Maharashtra	45.8	70.7	93.0	93.0
Punjab	2.4	1.8	3.0	4.0
Tamil Nadu	16.0	12.8	17.0	23.0
Uttar Pradesh	40.6	51.8	62.0	64.0
Others	3.5	4.4	6.0	7.0
Total	145.38	189.12	240.00	255.00

Note: Excludes khandsari sugar, as state break-up is not available.

Source: /1: MYs 2008/09 and 2009/10 - Indian Sugar Mills Association

/2: MYs 2010/11 and 2011/12 – FAS/New Delhi Estimate

Table 5: Commodity, Centrifugal Sugar, Price Table

(Price in crystal weight basis)

Prices in	Rupees		per uom	Metric Tons
Year	2009	2010	2011	% Change
Jan	22350	40000	30500	-24%
Feb	22800	35200	29650	-16%
Mar	22000	31250	30750	-2%
Apr	24250	30000		
May	24000	28500		
Jun	24750	28000		
Jul	25750	28500		
Aug	30000	27250		
Sep	29750	27500		
Oct	32000	28000		
Nov	34000	30000		
Dec	38500	31000		
Exchange Rate	48.32	45.65	44.20	
Local Currency/US \$				

Note: Exchange rate for 2009 and 2010 refers to Indian Fiscal Years 2009/10 (April/March) and IFY 2010/11 respectively. Exchange rate of 2011 refers to first week of April, 2011.

Source & Contract Terms: Indian Sugar Mills Association; month-end prices in the Delhi wholesale market

Table 6: Commodity, Gur, Price Table

(Price in actual weight basis)

Prices in	Rupees		per uom	Metric Tons
Year	2009	2010	2011	% Change
Jan	19750	30000	23500	-22%
Feb	20500	27500	23000	-16%
Mar	21000	28000	24500	-13%
Apr	22000	28000		
May	23000	34000		
Jun	23000	34000		
Jul	25000	34000		
Aug	25000	34000		
Sep	26000	30000		
Oct	28000	29000		
Nov	33750	24000		
Dec	32000	25500		
Exchange Rate	48.32	45.65	44.20	

Local Currency/US \$				
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Note: Exchange rate for 2009 and 2010 refers to Indian Fiscal Years 2009/10 (April/March) and IFY 2010/11 respectively. Exchange rate of 2011 refers to first week of April, 2011.

Source & Contract Term: Indian Sugar Mills Association; month-end prices in the Delhi wholesale market.

Table 7: Commodity, Sugarcane, Price Table

(Price in Rs. per ton)

PRICE	2010/11	2009/10	2008/09
Minimum Support Price (MSP) or Fair Remunerative Price (FRP) for			
Wheat		11000	10800
Rice (Grade A)	10300	9800	8800 ^{/1}
Sugarcane	1391.2	1298.4 ^{/2}	811.8 ^{/3}
State Advised Price for Sugarcane			
Uttar Pradesh	2050-2100 ^{/4}	1650-1700 ^{/5}	1400-1450 ^{/6}
Haryana/Punjab	1900-2200	1850-1900	1400-1500
Southern States ^{/7}	1750-2300	2000-2400	1200-1600

Notes:

/1 An additional bonus of Rs. 500 per MT was paid over the MSP.

/2 FRP for 2009/10 linked to a basic recovery rate of 9.5 percent, and for every 0.1% increase in recovery over the basic recovery rate, an additional premium of Rs. 13.7/mt.

/3 MSP for 2006/07, 2007/08 and 2008/09 linked to a basic recovery rate of 9.0 percent, and for every 0.1 % increase in recovery over 9.0 % basic recovery rate, an additional premium of Rs. 9.0/mt respectively.

/4 Sugar mills pay SAP

/5 Sugar mills paid prices above SAP ranging from Rs. 2000/mt to 2800/mt.

/6: Sugar mills paid an additional premium of Rs. 100 to 150 per MT to the farmers after the month of January 2009

/7: Sugar mills pay market prices.

Exchange Rate:

2008/09 (April/March) 1US\$= 46.0 Indian Rs.

2009/10 (April/March) 1US\$= 47.9 Indian Rs.

2010/11 (April/March) 1US\$= 45.7 Indian Rs.

Source: Indian Sugar Mills Association

Table 8: Month wise Release of Sugar for 2007/08 through 2010/11

Month	2007/08	2008/09	2009/10	2010/11
October	1.828	1.727	2.085	1.998
November	1.491	1.68	1.714	1.615
December	1.491	1.589	1.692	1.708
January	1.595	1.701	1.639	1.918
February	1.591	1.691	1.791	1.839
March	1.789	1.791	1.800	1.886
April	1.886	1.841	2.002	
May	1.536	1.839	2.117	
June	1.542	1.59	1.908	
July	1.393	1.457	1.665	
August	1.294	1.562	1.920	
Sept	1.408	1.611	1.900	
Total	18.844	20.079	22.233	10.964

Note: Quantity in million metric tons weight basis

In addition, a quantity of 2.75 million tons of buffer stocks was released during May 1-September 30, 2008

* In addition, a quantity of 2.25 million tons of buffer stocks was released during Oct 1-September 30, 2009

Source: Indian Sugar Mills Association.

Table 9: Import Trade matrix: Centrifugal Sugar

(October 2009 through September 2010)

Period	Raw Sugar	White Sugar	Total
October	698,231	150,672	848,903
November	577,800	118,371	696,171
December	352,350	141,580	493,930
January	258,978	50,650	309,628
February	369,776	54,400	424,176
March	172,300	155,994	328,294
April	230,522	137,586	368,108
May	139,400	27,250	166,650
June	30,100	52,079	82,179
July	234,208	10,880	245,088
August	227,700	6,250	233,950
September	50,000	1,080	51,080
TOTAL	3,341,365	906,792	4,248,157

Note: Quantity in metric tons. Trade figures for 2010/11 are unavailable.

Source: Industry sources

Table 10: Export Trade matrix: Centrifugal Sugar

(October 2009 through September 2010)

Period	Raw Sugar	White Sugar	Total
October	5,000	0	5,000
June	2,560	0	2,560
July	21,642	0	21,642
August	24,687	0	24,687
September	121,583	41,500	163,083
TOTAL	175,472	41,500	216,972

Note: Quantity in metric tons. Trade figures for 2010/11 are unavailable.

Source: Industry and Trade sources

Author Defined:

Ethanol Program

India's ethanol program is based on producing ethanol from sugar molasses, a by-product of the sugar industry and not directly from sugarcane or corn. For more on India's ethanol program, please refer to India's Biofuel Annual Report 2010 (GAIN IN1058).

